

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalamazoo Lake Sewer & Water Authority	County Allegan
Fiscal Year End 2/28/06	Opinion Date 5/24/06	Date Audit Report Submitted to State 7/13/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments arose during the audit	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Ferris, Busscher & Zwiers, P.C.		Telephone Number (616) 392-8534	
Street Address 675 E. 16th Street, Suite 100		City Holland	State MI
		Zip 49423	
Authorizing CPA Signature  C.P.A.		Printed Name Douglas W. Rotman, C.P.A.	License Number 1101019033

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

FEBRUARY 28, 2006

INDEX

	<u>Page</u>
AUTHORITY BOARD	
INDEPENDENT AUDITORS' REPORT	
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	1
Statement of Revenues, Expenses and Changes in Net Assets.....	2
Statement of Cash Flows	3
Statement of Fiduciary Net Assets.....	4
Notes to Financial Statements.....	5-11
ADDITIONAL INFORMATION	
Schedule of Allegan County Sewage Disposal and Water Supply System (City of Saugatuck and City of the Village of Douglas) Bonds Issued, Redeemed and Outstanding	12

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

AUTHORITY BOARD

Mark Bekken

Dan Urquhart

Cindy Engel

Barry Johnson

Phillip Quade

May 24, 2006

Members of the Board
Kalamazoo Lake Sewer and
Water Authority
Saugatuck, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan as of and for the year ended February 28, 2006, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan, as of February 28, 2006, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Allegan County Sewer Disposal and Water Supply System Bonds on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ferris, Busscher & Zwiars, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

BASIC FINANCIAL STATEMENTS

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET ASSETS
FEBRUARY 28, 2006

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 714,926
Accounts receivable	93,326
Prepaid expenses	<u>1,387</u>

TOTAL CURRENT ASSETS	<u>\$ 809,639</u>
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NONCURRENT ASSETS

Capital assets, net of depreciation	<u>\$ 3,654,630</u>
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TOTAL ASSETS	<u>\$ 4,464,269</u>
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LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 13,620
Accrued liabilities	
Wages	19,724
Payroll taxes	229
Retirement contribution	2,306
Due to agency funds	540
Current portion of noncurrent liabilities	<u>6,738</u>

TOTAL CURRENT LIABILITIES	<u>\$ 43,157</u>
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NONCURRENT LIABILITIES

Note payable	<u>\$ 23,234</u>
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TOTAL LIABILITIES	<u>\$ 66,391</u>
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NET ASSETS

Invested in capital assets, net of related debt	\$ 3,624,658
Unrestricted	<u>773,220</u>

TOTAL NET ASSETS	<u>\$ 4,397,878</u>
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See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED FEBRUARY 28, 2006

OPERATING REVENUES

Charges for services - sewer	\$ 399,534
Charges for services - water	<u>620,962</u>

TOTAL OPERATING REVENUES	\$ <u>1,020,496</u>
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OPERATING EXPENSES

Sewer

Employment costs	\$ 220,897
Repairs and maintenance	50,223
Supplies and materials	34,155
Depreciation	262,567
Utilities and insurance	86,599
Purchased services	4,155
Administration	<u>11,102</u>

Total sewer operating expenses	\$ <u>669,698</u>
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Water

Employment costs	\$ 220,336
Repairs and maintenance	27,898
Supplies and materials	146,140
Depreciation	31,367
Utilities and insurance	96,715
Purchased services	1,936
Administration	<u>11,415</u>

Total water operating expenses	\$ <u>535,807</u>
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TOTAL OPERATING EXPENSES	\$ <u>1,205,505</u>
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OPERATING LOSS	\$ <u>(185,009)</u>
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NONOPERATING REVENUES (EXPENSES)

Capital contribution - sewer	\$ 28,437
Interest income	16,324
Interest expense	<u>(2,097)</u>

TOTAL NONOPERATING REVENUES (EXPENSES)	\$ <u>42,664</u>
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CHANGE IN NET ASSETS	\$ (142,345)
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NET ASSETS - MARCH 1, 2005	<u>4,540,223</u>
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NET ASSETS - FEBRUARY 28, 2006	<u>\$ 4,397,878</u>
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See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 28, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Received from user charges	\$ 1,002,197
Payments to employees for services	(444,244)
Payments to suppliers for goods and services	<u>(454,823)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 103,130</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	\$ 36,471
Contributed capital	28,437
Purchase of capital assets	(65,944)
Principal and interest paid on capital debt	<u>(8,596)</u>

NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (9,632)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	<u>\$ 16,324</u>
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NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 16,324</u>
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NET INCREASE IN CASH AND EQUIVALENTS	\$ 109,822
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CASH AND EQUIVALENTS - MARCH 1, 2005	<u>605,104</u>
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CASH AND EQUIVALENTS - FEBRUARY 28, 2006	<u>\$ 714,926</u>
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RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES

Operating loss	\$ (185,009)
Adjustments to reconcile net operating loss to net cash provided by operating activities	
Depreciation expense	293,934
Change in assets and liabilities	
Receivables	(18,299)
Prepaid expenses	18,354
Accounts payable and accrued liabilities	<u>(5,850)</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 103,130</u>
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See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FEBRUARY 28, 2006

	Agency <u>Funds</u>
ASSETS	
Cash and equivalents	\$ 421,276
Customer receivables	8,833
Due from other funds	<u>540</u>
 TOTAL ASSETS	 \$ <u>430,649</u>
LIABILITIES	
Payables to other governments	\$ <u>430,649</u>
 TOTAL LIABILITIES	 \$ <u>430,649</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the City of the Village of Douglas and City of Saugatuck, created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended. The Authority was formed to operate, maintain, administer, and manage the water and sewage disposal systems. The Authority grants credit to its residential, commercial and industrial customers located within the City of the Village of Douglas, City of Saugatuck and Saugatuck Township.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION

The Authority is accounted for in funds, each of which is considered to be a separate accounting entity. The major fund categories are Proprietary funds and Fiduciary funds.

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperation items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

BANK DEPOSITS AND INVESTMENTS

For the purposes of the statement of cash flows, cash and equivalents are defined as demand deposits, savings accounts and investments in a short-term investment fund for local units of government.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CUSTOMER RECEIVABLES

Customer receivables are carried at their net realizable value. The Authority rarely has uncollectible accounts because of its ability to collect overdue balances with a property tax levy. Accordingly, the Authority has not recorded an allowance for doubtful accounts.

PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items.

CAPITAL ASSETS

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings, plant and improvements	10-40
Lift stations	40
Mains and connections	40
Machinery and equipment	5-10
Office equipment and furnishings	3-10

COMPENSATED ABSENCES

All employees are granted paid time off in varying amounts depending on length of service. Employees may accumulate a maximum of 360 hours of paid time off. In the event of termination, an employee is reimbursed for any unused accumulated paid time off at 100% of their current base rate.

At the election of the employee, paid time off hours may be converted to their cashable sick leave account (CSLA). Hours accumulated in the CSLA are to be used for short term disability, care of an infirm parent, or any other medical emergencies. Employees may accumulate a maximum of 360 CSLA hours. In the event of termination, an employee is reimbursed for any unused accumulated CSLA hours at 50% of their current base rate.

The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated two banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and equivalents	<u>\$ 714,926</u>	<u>\$ 421,276</u>	<u>\$1,136,202</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$1,136,202</u>
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The bank balance of the Authority's deposits is \$1,148,391 of which \$200,000 is covered by federal depository insurance and \$948,391 uninsured and uncollateralized.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings, plant and improvements	\$3,510,457	\$ -	\$ -	\$3,510,457
Lift stations	1,296,861	24,561	-	1,321,422
Mains and connections	4,488,406	-	-	4,488,406
Machinery and equipment	483,086	41,383	30,032	494,437
Office equipment and furnishings	<u>75,395</u>	<u>-</u>	<u>15,183</u>	<u>60,212</u>
Subtotal	<u>\$9,854,205</u>	<u>\$ 65,944</u>	<u>\$45,215</u>	<u>\$9,874,934</u>
Less accumulated depreciation for				
Buildings, plant and improvements	\$2,011,868	\$ 95,108	\$ -	\$2,106,976
Lift stations	784,416	35,536	-	819,952
Mains and connections	2,785,177	115,433	-	2,900,610
Machinery and equipment	316,751	46,234	30,032	332,953
Office equipment and furnishings	<u>73,373</u>	<u>1,623</u>	<u>15,183</u>	<u>59,813</u>
Subtotal	<u>\$5,971,585</u>	<u>\$ 293,934</u>	<u>\$45,215</u>	<u>\$6,220,304</u>
Total capital assets – net of depreciation	<u>\$3,882,620</u>	<u>\$(227,990)</u>	<u>\$ -</u>	<u>\$3,654,630</u>

Depreciation expense was \$293,934 for the year ended February 28, 2006.

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Agency Funds	<u>\$540</u>	Sewer and Water Enterprise Fund	<u>\$540</u>

NOTE 5 – CAPITAL LEASE

The Authority has entered into a lease agreement as lessee for financing the purchase of two pick-up trucks. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 5 – CAPITAL LEASE (CONTINUED)

Year ended February 28,

2007	\$ 8,596
2008	8,596
2009	8,596
2010	<u>8,596</u>
Total minimum lease payments	\$34,384
Less amount representing interest	<u>4,412</u>
Present value	<u>\$29,972</u>

NOTE 6 – LONG-TERM DEBT

Contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Installment purchase agreement							
GMAC	6.90%	2/28/10	\$ <u> - </u>	<u>\$36,471</u>	<u>\$(6,499)</u>	<u>\$29,972</u>	<u>\$ 6,738</u>

Annual requirements to maturity for the above obligations are as follows:

<u>Year ended February 28,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 6,738	\$ 1,858
2008	7,218	1,378
2009	7,732	864
2010	<u>8,284</u>	<u>312</u>
Total	<u>\$29,972</u>	<u>\$ 4,412</u>

NOTE 7 – TRUST AND AGENCY FUNDS

The Authority is collecting connection fees for the City of Saugatuck and the City of the Village of Douglas by agreement. In addition, the Authority collects debt service fees for Saugatuck Township. These funds are held by the Authority until the local governments request the funds.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

FUNDING POLICY

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period March 1, 2005 through February 28, 2006 was based on the annual actuarial valuation as of December 31, 2003. The net rate used was 9.91% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended February 28, 2006, the Authority's annual pension cost of \$31,318 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

Three year trend information as of December 31 follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual pension cost	\$ 31,318	\$ 27,633	\$ 22,645
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$538,953	\$498,895	\$481,059
Actuarial accrued liability	\$684,886	\$626,993	\$557,631
Unfunded AAL	\$145,933	\$128,098	\$ 76,572
Funded ratio	79%	80%	80%
Covered payroll	\$291,611	\$280,479	\$248,598
UAAL as a percentage of covered payroll	50%	46%	31%

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2006

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority participates in the Michigan Municipal Workers' Compensation Fund. This fund consists of a group program of workers' compensation self insurance for Michigan Municipalities. The Authority pays premiums based on estimated payroll for the policy period and is subject to an audit of actual payroll paid during the policy period to determine if additional premiums are due or a refund is warranted.

The Authority purchases commercial insurance for general liability, property coverage and medical benefits.

Settled claims for insurance have not significantly exceeded the amount of coverage during the year ended February 28, 2006. During the year ended February 28, 2003, the Authority discontinued its liability insurance coverage for losses related to sewer back-ups. Management does not expect the additional exposure to result in material losses.

ADDITIONAL INFORMATION

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF ALLEGAN COUNTY WATER SUPPLY SYSTEM
VILLAGE OF DOUGLAS
BONDS ISSUED, REDEEMED AND OUTSTANDING
FEBRUARY 28, 2006

<u>Due May 1,</u>	<u>Interest Rate</u>	<u>Issued September 1, 1977</u>	<u>Redeemed</u>	<u>Outstanding February 28, 2006</u>
1979	7.00%	\$ 10,000	\$ 10,000	\$ -
1980	7.00	40,000	40,000	-
1981	7.00	50,000	50,000	-
1982	7.00	50,000	50,000	-
1983	7.00	50,000	50,000	-
1984	7.00	50,000	50,000	-
1985	6.25	75,000	75,000	-
1986	5.00	75,000	75,000	-
1987	5.00	75,000	75,000	-
1988	5.00	75,000	75,000	-
1989	5.00	75,000	75,000	-
1990	5.10	75,000	75,000	-
1991	5.20	75,000	75,000	-
1992	5.25	75,000	75,000	-
1993	5.30	75,000	75,000	-
1994	5.40	75,000	75,000	-
1995	5.50	75,000	75,000	-
1996	5.60	75,000	75,000	-
1997	5.65	100,000	100,000	-
1998	5.70	100,000	100,000	-
1999	5.70	100,000	100,000	-
2000	5.75	100,000	100,000	-
2001	5.75	100,000	100,000	-
2002	5.80	125,000	125,000	-
2003	5.80	125,000	125,000	-
2004	5.75	125,000	125,000	-
2005	5.75	<u>125,000</u>	<u>125,000</u>	<u>-</u>
TOTALS		<u>\$2,150,000</u>	<u>\$2,150,000</u>	<u>\$ -</u>

Interest Dates: May 1 and November 1

Redemption prior to maturity:

Bonds are subject to redemption prior to maturity, at the option of the County and in such order as the County shall determine, on any interest payment date as follows:

101% of par on or after 5/1/00, but prior to maturity.